

Jay's Retirement Dilemma

Jay seemed upset today in the office. He just came from the obituary of his close friend Jasbir aged 35, who died of heart attack and was survived by his wife and two children. Jasbir was very jolly natured and he dint had any smoking or drinking habits. He was nominated with best employee of the year award last year and was expecting a promotion this year. He suddenly encountered heart attack and dint left any savings for his survivals. His wife is in trauma now, since she is worried about how will she manage kids and her expenses. This has kept Jay shocked and unhappy.

Jay is seriously introspecting and wants his family to be prepared for such unexpected setback. As an Investment Advisor (NISM Certified XA and XB), you are required to suggest him the sum assured and yearly saving which can be used for paying premium for insurance policy in the light of following information.

Jay has a monthly expenses of Rs 70,000 of which 50% is for household expenses. He is 35 years old and expects to retire at the age of 60. He expects to incur additional expenses of Rs 10,000 pm at current prices for discretionary expenses in the retirement. Inflation currently and till his retirement is averagely expected to be around 5%.

Questions:

1. You are required to advise him on the sum assured he should be having considering the expenses at the time of his retirement and assuming that he expects to live till 80. Assume inflation to be 5% and rate of return on retirement corpus is 14.45%.
2. What should be his monthly saving from today till he retires to build the required corpus calculated in the above calculation (a) if the investment rate is 15%?

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